

86th Legislative Session – 2011

Committee: Joint Appropriations

Thursday, January 27, 2011

P - Present
E - Excused
A - Absent

Roll Call

P Sutton
P Haverly
P Heineman
P Novstrup (Al)
P Peters
P Putnam
P Rampelberg
P Dennert
P Wismer
P Juhnke
P Bolin
P Romkema
P Dryden
P White
P Tidemann
P Carson
P Brown, Vice-Chair
P Wink, Chair

OTHERS PRESENT: See Original Minutes

The meeting was called to order by Representative Dean Wink.

Cash Flow Accounts

Mr. Jason Dilges, Commissioner of the Bureau of Finance and Management (BFM), distributed a handout explaining the South Dakota Cash Flow Fund (**Document #1**). The Cash Flow Fund is comprised of about 260 separately identified state accounts. The South Dakota Investment

Council (SDIC) invests 100% of the funds in the cash flow account to provide the highest amount of interest income for state agencies and the state general fund.

Each year, the Joint Appropriations Committee certifies the investment return and proration on the account. The accounts are divided into participating accounts (retain the interest earned on their fund) and nonparticipating accounts (the interest earned is deposited in the general fund because the state actively participates with the account). By pooling the separate accounts into the Cash Flow Fund, the state was able to earn an average of \$14-\$15 million in investment income and interest for the general fund annually. Last year the return was over 4%.

In response to **Senator Bruce Rampelberg's** question, Commissioner Dilges stated that the only administration fee charged is for the SDIC expenses is charged to each investment portfolio. An amount in interest that is representative of the percentage of time spent on the fund will be withheld by SDIC to account for the administrative cost.

Senator J.E. "Jim" Putnam asked about the documentation of the interest revenues. Commissioner Dilges responded that the interest earned is listed in the Governor's Budget Book on the general funds receipts page under Investment Income and Interest. Each June, the Bureau of Finance and Management (BFM) applies 90% of the investment income and interest to the general fund for the current fiscal year and 10% is applied in the next fiscal year. All other funds that participate in the interest proration receive their interest income in the next fiscal year.

Page 2 of Document #1 shows the balance of the cash flow fund at the end of the fiscal year for the last five years. Commissioner Dilges noted that only the general fund, the property tax reduction fund, and the budget reserve can be used to address the general cash flow needs of the state that occur daily.

Commissioner Dilges stated that the majority of the balance in the cash flow fund is other funds – about \$800 million. As of June 30, 2010, about 82% of the balance was held in other funds. Some examples of other funds include: the State Highway Fund, the Board of Regents funds, the Game and Fish Fund, the South Dakota Building Authority Fund, and the Railroad Trust Fund. The majority of these funds are statutorily or constitutionally dedicated for specific purposes.

Representative H. Paul Dennert asked about legislative approval to transfer money from other funds to the general fund. Commissioner Dilges said that when looking at the general bill and Governor Dugaard's FY2012 budget recommendations, the state will be short in other funds. The only way the other funds can be spent is with expenditure authority or if the appropriations committee decides to take the funds on a one-time basis, the funds would be moved to the back of the general bill into the general fund. At that time, the other funds can be treated as general funds. To deviate from this process would require action of the legislature and approval of the Governor.

Senator Larry Tidemann asked about obligations to the Cash Flow Fund. Commissioner Dilges responded that the Joint Appropriations Committee approves other fund expenditure authority to agencies, therefore, some of the other funds already have prior obligations for the various agencies.

In response to **Representative Kent Juhnke's** question, Commissioner Dilges said that by the state using other funds and federal funds to replace the general funds, some of the funds would be diminished unless there is an increase in fees for other fund revenue.

As of June 30, 2010, of the \$798 million in other funds, \$535 million (67%) was held in eight areas:

- Public employees and workman's compensation - \$26.4 million;
- Payment Imprest Fund - \$34 million;
- Revolving Economic Development and Initiative Fund - \$37 million;
- Building Authority Funds - \$39.8 million;
- Science and Technology Authority - \$43.3 million;
- State Highway Fund - \$81.1 million;
- Board of Regents funds - \$126.4 million; and
- Agency Clearing Funds - \$146.9 million.

Commissioner Dilges stated that the remaining balance at the end of FY2010 for other funds is \$263 million.

Senator Phyllis Heineman asked about the possibility of there not being enough funds in the general fund to make payments. Commissioner Dilges stated that there have been instances where the BFM would need authorization for transfers from the Property Tax Reduction Fund, or the general fund would be negative after making payments. Sometimes, the BFM waits on posting expenses until the next day's receipts enter the system.

Distributed was a handout from the GOAC Blue Book showing a three year history on fund balances.

Internal Service Funds – Space Billing Information. Commissioner Dilges told the committee that the bureaus exist primarily as service providers for the rest of state government. In turn, the state agencies pay the bureau for the services provided. Payments can be made from general funds, other funds, or federal funds.

The Bureau of Administration (BOA) bills agencies all allowable costs to occupy space in the capitol complex, such as lights, janitorial services, etc. The BOA initially pays for the costs, but is reimbursed from the state agencies. The agencies cost allocation plans need to be approved to pay with those funds. The state is not able to recover more or less than the actual costs. The rates are reviewed quarterly and are adjusted based on collections.

Commissioner Dilges stated that Governor Daugaard requested all bureaus to cut expenses by 10%. This budget cut will not save general funds. This reduction will cause the expenses to decrease, and the amount billed to the agencies will decrease. The agencies will then pay the bureaus with fewer general funds. The internal service reductions are the direct result of cost cutting measures that the bureaus have undertaken to save the agencies money.

In response to Senator Rampelberg's question, Commissioner Dilges stated that the state does not fund all repair costs annually. Not all inflationary increases are included.

Commissioner Dilges said, in response to Representative Dennert's question, that the BOA will have a budget cut of a couple \$100,000 in general funds for maintenance and repair. This budget cut it to get the agency to the requested 10% reduction.

Full Time Equivalents (FTEs). An FTE is not a person, but is rather defined by a total number of hours worked. For FY2012, 1.0 FTE is equal to 2,096 working hours. Therefore, one or more people could work the 2,096 hours allotted to fill an FTE. The funding source is not appropriated by the committee but is determined by the agencies work, cost allocation, and how the hours are utilized. Commissioner Dilges noted that interns and legislators are not counted as FTEs.

Positions are different than FTEs. A position is defined as a collection of duties and responsibilities assigned by the appointing authority. Commissioner Dilges commented that positions are not appropriated, but rather the FTE.

Normal turnover and turnover in a larger office most likely does not allow for a department to fully consume all the FTE hours. At the end of the fiscal year, there are extra dollars associated with the position. If a person retires or quits, the department is required to payout the employees benefits; which is not included in the agency's budgets. Many agencies use the unused FTE hours and keep the position vacant to fund the benefit payout.

Commissioner Dilges stated that the state is not able to hire a person on contract with personal services.

Senator Jeffrey Haverly asked if there is the possibility to have a fund that an agency is able to request funds for benefit payouts if they know of potential turnover. Commissioner Dilges stated that some agencies have inherited half a year budget and the agency needs to balance the budget at the end of the fiscal year with turnovers. There are management decisions to keep positions open to address turnover. The state has never had a pool of resources for transitional costs.

Representative Jim White asked for the total number of FTEs for FY2012 compared to FY2011. Commissioner Dilges stated Governor Daugaard is recommending a reduction of 161.1 FTEs for the executive branch of government and an increase of a 176.9 FTEs for the remainder

of state government. There will be about 14,000 FTEs, an increase of about 16 FTEs from FY2011 to FY2012 if the governor's budget proposal is adopted.

Senator Heineman asked if boards or commissions are considered FTEs. Commissioner Dilges stated that the board member themselves are not FTEs, but the board employees are considered FTEs.

Representative Dean Wink requested that BFM provide a chart showing the number of FTEs versus actual people working in state government.

Representative Susan Wismer asked about workstudy positions. Commissioner Dilges stated that with the passage of legislation last session, graduate assistants and workstudy positions are no longer counted as FTEs. With that change, 750 FTEs were removed from state government. The students are still employed with the university, but not counted as FTEs with the state.

MOTION: ADJOURN

Moved by: Carson
Second by: Haverly
Action: Prevailed by voice vote.

Lisa Shafer
Committee Secretary

Dean Wink, Chair